BRITISH COLUMBIA
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BC Stats

Infoline

Contact: bcstats.infoline@gov.bc.ca Issue: 07-34 August 24, 2007

- **Inflation rate rises to 1.6%, price of energy drops 2.4%**
- **Retail sales unchanged in June**
- **Smoking bans in the workplace associated with higher rates of smokers quitting**

Prices

- **British Columbia's year-over-year inflation rate rose to 1.6% in July, up 0.1 percentage points over the rate recorded in June.** The recent drop in the price of energy (-2.4%) had a dampening effect on the economy's overall inflation rate. Excluding energy, the increase in the Consumer Price Index (CPI) was 2.0%.

  Transportation costs were essentially unchanged (-0.1%) in July as falling prices at the pump (-3.7%) helped to soften a sharp increase in the cost of repairing & maintaining (+7.6%) an automobile. The price of food rose 2.6% as both grocery purchases (+1.8%) and restaurant fare (+3.9%) were more costly. While consumers paid less for fuel oil (-2.4%) and electricity (-0.6%), the price of water (+7.5%) and piped gas (+2.3%) increased, leaving the cost of utilities flat. Shelter was more expensive (+2.1%) as the price of both rented (+1.1%) and owned (+3.0%) accommodations continued to increase. The price of alcohol & tobacco (+2.9%), recreation, education & reading materials (+2.5%) as well as health & personal care (+2.2%) increased while the price of clothing & footwear was down (-1.5%).

  Vancouver's inflation rate (+2.0%) was higher than the average for the province in July. In Victoria, where the cost of shelter has fallen 0.3%, the inflation rate was significantly lower (+0.8%).

  Data Source: Statistics Canada

- **Canada's inflation rate held at 2.2% for the fourth straight month.** Increases in the cost of food (+2.8%), shelter (+3.4%) and recreation, education & reading (+1.7%) were all big factors in explaining the increase in prices. The largest overall price increase was once again observed in Alberta where the CPI has shot up 5.0%, roughly two and a half times the national average.

  Data Source: Statistics Canada

The Economy

- **Total retail sales in BC were virtually unchanged in June, holding firm at $4.7 billion (*seasonally adjusted*), as gains made by food retailers (+2.1%) were offset by a drop in sales observed in the automotive sector (-1.5%).** Sales fell sharply at pharmacies (-2.2%), but expanded moderately at building & outdoor home supply stores (+0.4%). Business at general merchandise stores (+0.1%), miscellaneous retailers (+0.1%), furniture, home furnishings and electronics stores (-0.1%) and clothing and accessory stores (-0.1%) was flat in June.

  Nationally, shoppers put the brakes on spending in June as sales fell 0.9%, primarily as a result of lower sales in the automotive sector. A total of eight provinces recorded either no change or a downturn in sales in June. The exceptions were Newfoundland & Labrador (+1.8%), where sales were moderately higher, and Alberta (+0.2%).

  Data Source: Statistics Canada & BC Stats

- **Lumber production at BC's sawmills fell 7.2% through the first six months of 2007 compared to the same period a year earlier.** Shipments of lumber by sawmills were down (-8.6%).

  Data Source: Statistics Canada

- **An estimated 36,870 (*seasonally adjusted*) British Columbians received regular Employment Insurance benefits in June, down 0.3% from May.** Since June of 2006, the number of beneficiaries has fallen 11.6%. Nationally, the number of beneficiaries was virtually unchanged from May (+0.1%).

  Data Source: Statistics Canada

Second Quarter in Review

- **Retail sales in BC surged 2.9% (*seasonally adjusted*) in the second quarter of 2007, nearly matching the gains made in the first quarter (+3.0%), as retailers in all major categories posted gains.** Food retailers led the way amongst

Report Appreciating Dollar not Appreciated by Exporters

Did you know...

Canadians logged a total of 326 billion kilometres in their vehicles in 2006. That's 27 return trips from the Earth to Pluto! British Columbians accounted for 2 of those trips. *Data Source: Statistics Canada*

second quarter winners as sales soared 4.1%, the largest quarterly increase since the summer of 1997. Sales also jumped in the building & outdoor home supply (+3.7%), furniture, home furnishings & electronics (+3.7%) and automotive (+3.1%) sectors, building on similarly strong growth from the previous quarter. General merchandisers posted their eighth consecutive quarterly increase (+1.7%) while pharmacies (+0.8%) and clothing & accessories stores (+0.6%) showed much more modest increases

Data Source: Statistics Canada & BC Stats

Health

- **Workplaces that have bans on smoking are associated with smokers either quitting or reducing their consumption of cigarettes.** In 2006, more than one in four smokers who reported that their workplaces had become smoke-free had quit smoking within the last two years. This compares with less than one in seven smokers whose workplaces had no such restrictions.

  Those who did not quit reduced their consumption of cigarettes as a result of workplace bans. Smokers whose workplaces became smoke-free during the survey period averaged 2.1 fewer cigarettes per day. This compares to smokers who faced no such restrictions at work where cigarette consumption did not change.

  Data Source: Statistics Canada

- **British Columbians are the most physically active in the country.** In 2005, 59% of residents engaged in moderately active levels of activity during their leisure time. Rounding out the most active Canadians are the residents of Yukon (58%), Alberta (54%) and Ontario (53%).

  Nationally, 52% of Canadians were considered moderately active. Leisure time activity was less prevalent amongst those in lower income groups and immigrant populations, regardless of the amount of time they had been in Canada.

  Data Source: SC, Catalogue 82-003-XIE

Union Membership

- **Approximately 538,000 (30.2%) employees in BC belonged to a union in 2006.** Union members in BC earned an average hourly wage of $23.39 while those not belonging to a union earned a much lower $18.28 per hour.

  Nearly one in three Canadians either belonged to a union (29.4%) or was covered by a collective agreement (2.3%). The highest concentration of unionized employees in Canada was found amongst those living in Newfoundland & Labrador (36.4%) while the lowest rates of unionization were found with those living in Alberta (22.3%). Union membership was most common in education services (68.2%) and in public administration (66.9%).

  Data Source: SC, Catalogue 75-001-XIE

Tourism

- **Visitor entries to the province slipped -0.7% (*seasonally adjusted*) in June, following a 1.9% increase recorded in May.** The number of visitors from the US dropped (-1.2%) while entries from overseas, particularly from Europe, inched up (+0.9%). *Data Source: Statistics Canada & BC Stats*

The Nation

- **Canada's composite leading indicator advanced 0.4% (*seasonally adjusted*) in July, with expansion in six of the ten components.** The housing index (+1.2%), a composite of housing starts and sales, was the main source of growth. New orders of manufactured durables (-0.6%) continued to lag while sales of furniture & appliances (+0.9%) and other durable goods (+1.2%) gave the retail trade sector a boost.

  Data Source: Statistics Canada

- **Canadian corporations earned operating profits of $62.1 billion (*seasonally adjusted*) in the second quarter of 2007, slipping 0.7% from the beginning of the year.** Profits for non-financial businesses were off 0.4%, falling to $44.9 billion. Operating profits for manufacturers shrank 6.3% in response to the continued appreciation of the Canadian dollar against the US dollar. Financial industries lost ground as well, with profits dipping 1.4% to $17.3 billion due to weakness amongst insurance carriers and chartered banks.

  Data Source: Statistics Canada

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For data originating from Statistics Canada, data sourced to 'Statistics Canada' has been retrieved from CANSIM, the agency's electronic database; otherwise the source is identified as 'SC' plus the catalogue number.

Infoline Report

Contact Dan Schrier
(250) 387-0376
Originally published in
Exports issue 07-05

Appreciating Dollar not Appreciated by Exporters

The rapid appreciation of the Canadian dollar is of increasing concern for Canadian exporters of goods and services. Since hitting a low point of just over 62 cents US in January 2002, the loonie has increased its value 46% compared to its American counterpart. Not only has the Canadian buck gained strength against the US greenback, but also against many of the currencies of its major trading partners. The Canadian dollar effective exchange rate index (CERI), a weighted average index produced by the Bank of Canada that compares the Canadian dollar to six others,[1] clearly demonstrates the relative strength of the loonie.

In the last few years, the Canadian dollar has appreciated significantly against the currencies of Canada's major trading partners

Source: Bank of Canada

[1] The six currencies are the US dollar, the Japanese yen, the UK pound, the European Union euro, the Chinese yuan and the Mexican peso.

Since the beginning of 2003, the CERI has risen by over 30 points, from 80.96 in January 2003 to 114.05 in June 2007 (+41%). Although the CERI is weighted heavily toward the US dollar, the Canadian dollar has also appreciated significantly against the yen, the yuan and the peso, while its relative value against the euro and the pound has fluctuated, remaining relatively flat, on average, over the last several years.

High dollar a problem for exporters

The sharp rise in the dollar has posed a significant challenge for Canadian exporters. With almost two-thirds of BC's commodity exports shipped to the United States and a substantial portion of exported services provided to Americans, BC exporters are vulnerable to changes in the value of the dollar. This is because goods and services priced in Canadian dollars will be more expensive for American buyers, which means they may look elsewhere for those products. Alternatively, for goods and services priced in US dollars, Canadian producers will receive less for them when the revenue is converted to Canadian currency.

A significant driver of Canada's currency appreciation is the movement in commodity prices. In general, when commodity prices are trending up or down, the Canadian dollar will follow due to the strong export orientation of Canada's economy. As a result, some exporters are cushioned from the rise in the dollar by concurrent hikes in prices of the commodities they are exporting. However, not all exporters are benefiting from higher prices for their goods. For example, lumber producers have seen the demand for their product slump in concert with a drop in housing starts in the United States and, as

a result, prices too have fallen. For those lumber companies whose main client base is in the United States, the higher Canadian dollar is exacerbating an already bad situation. Exporters of manufactured goods are also hurt by the rise in the dollar's value and those manufacturers that allowed their productivity to stall when the low value of the dollar gave them an advantage over American competitors are now having to either play catch-up or get out of the game entirely. Some manufacturers are considering moving their operations out of Canada to a lower cost jurisdiction.

Silver linings?

There are some exporters that may benefit from a higher dollar, particularly if they have debt denominated in American currency. For those companies, even if they have been paying only the interest and have not touched the capital in the last few years, their debt load has been reduced significantly due to the appreciation of the loonie.

Another possible benefit to exporters of a higher-valued dollar is the fact that imports should be cheaper, which means that Canadian companies should be able to make capital improvements more cost-effectively and thereby improve productivity. Since much of the productivity-improving machinery and equipment is manufactured in the United States and a higher Canadian dollar means more buying power when converted to US currency, these imports will be less expensive and Canadian firms can reduce their production costs and become more competitive.

However, it appears that prices have been slow to fall in Canada in response to the dollar's appreciation and Canadians are not getting full value for the higher dollar. This is quite obvious for consumers buying books or greeting cards that have the price in both Canadian and US dollars. For example, the forthcoming new Harry Potter book can be purchased at a pre-order sale price of Cdn $22.50 on Amazon.ca, the Canadian version of the online retailer, but is US $17.99 for pre-orders on Amazon.com, the American site, which translates to Cdn $19.34 when using a 93 cent exchange rate conversion. Therefore, the Canadian price is 16% higher than it should be at a 93 cent exchange rate. For Canadians shopping for books in a retail store, rather than online, the discrepancy can be significantly greater.

This price discrepancy exists for other goods as well. Douglas Porter, writing in a BMO Capital Markets research article, suggested that "Retail prices in Canada have responded to the loonie's moonshot with all the speed and alacrity of a three-toed sloth on a hot summer's day."[2] He gave examples ranging from magazines to automobiles where the Canadian price was significantly higher than the American equivalent and he suggested that the result of this discrepancy is that inflation in Canada is higher than it should be. Considering that a core inflation rate over the Bank of Canada's 2% target is

[2] Porter, Douglas (June 15, 2007). "The Price is Wrong," Focus, BMO Capital Markets, p. 5

the reason why the Bank is raising Canadian interest rates, and considering that the rise in rates will likely drive the dollar even higher, this is a serious problem for Canadian exporters. Not only are they not necessarily getting the benefit of cheaper imports of potentially productivity-improving goods, but they face additional appreciation of the dollar, further reducing their revenues.

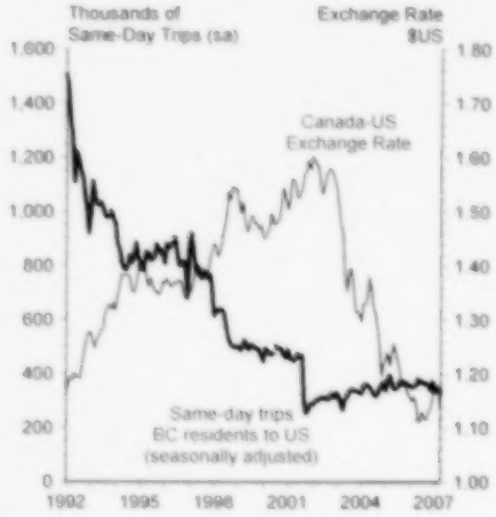
While Porter's analysis is based mainly on anecdotal pricing evidence, there is further support to suggest that prices in Canada are too high. The UBC Sauder School of Business produces a purchasing power parity (PPP) figure based on OECD PPP estimates and updated periodically to reflect the current exchange rate.[3] According to the latest PPP figures (July 10, 2007), the Canadian dollar is overvalued by between 13% and 14%.

The concept of PPP is that once an exchange rate is taken into account, goods should cost the same. Theoretically, if a good, say a book, costs significantly more in Canada, then more Canadians will shop in the United States for books. This should create more demand for the US dollar, which in turn will depress the value of the Canadian dollar. It should also result in less demand for books in Canada, which should reduce the price, while at the same time the increased demand for books in the US should raise the price of books there. Therefore, over time, the prices should equalize.

Why this hasn't yet occurred may be a combination of several things, including the rapidity of the loonie's ascent and general price stickiness for some products. Another factor may be the increasing hesitance of Canadians to travel to the United States, given the increased security hassles and the uncertainty surrounding identification requirements, not to mention the high price of gasoline that is likely discouraging some day trips.

Based on data for same-day trips to the United States, it appears that British Columbians have not embraced cross border shopping with the same zeal they did back in the early 1990s when the dollar was valued at around 85 cents US. Same-day trips to the United States are only slightly higher than they were in 2002 when the dollar hit it lowest point and well below levels seen in the early 1990s.

The rise of the Canadian dollar has not translated to a large increase in same-day trips from BC to the United States as it did in the 1990s



Sources: Statistics Canada and Bank of Canada

In addition to the border problems and the price of gas, other possible reasons for the failure of the high dollar to drive shoppers south to the United States may include the strong growth in the number of American retailers opening franchises in Canada as well as the increase in online shopping.

One of the reasons Canadians used to cross the border to shop was the greater variety offered by American retailers, but with the

[3] See http://fx.sauder.ubc.ca/PPP.html

expansion of American chain stores operating in Canada, Canadians can now get most of those goods at home. The rise of e-commerce could be another thing keeping Canadians at home, as they can buy goods via their computer in the comfort of their own home. However, on-line purchases are not a practical choice for many goods and according to data from Statistics Canada, in 2006, even though retail firms almost doubled the value of goods and services sold online compared to 2005, it still only amounted to just over 1% of the total retail market.

While the combination of greater choice at home, border hassles and the high price of gasoline may be keeping Canadians at home for now, it is unlikely that this will continue to be the case if the dollar keeps appreciating against the American greenback and Canadian prices do not adjust accordingly. However, in the meantime, the BC tourism industry may see some of the loss in traffic of American tourists counteracted by an increase in Canadians staying at home.

Far fewer Americans have been visiting British Columbia in recent years, likely as a result not only of the increasingly unfavourable exchange rate, but also the confusion surrounding passport requirements. The decline has been only partially offset by an increase in visitors from countries other than the United States. Canada's tourism sector can take some solace in a recent Scotiabank survey of summer travel intentions, which reported that just over half (51%) of Canadians were planning to vacation within Canada this summer.[4]

Nevertheless, Canada's tourism sector and other service sector industries that depend largely on service exports, such as BC's film and television production industry, will be challenged to maintain revenues in the face of a dollar nearing par with its US counterpart. In the case of the film industry, there are already instances of productions moving south to regions such as Louisiana, which offers incentives better than those available in British Columbia.

Common Currency?

The challenges faced by exporters of goods and services with the Canadian dollar approaching parity with the US greenback have revived the talk of a common North American currency. David Dodge, governor of the Bank of Canada, suggested that a common currency for Canada, the United States and Mexico was a possibility in a recent speech in Chicago, with the caveat that some of the barriers between countries would have to be removed before it could happen.

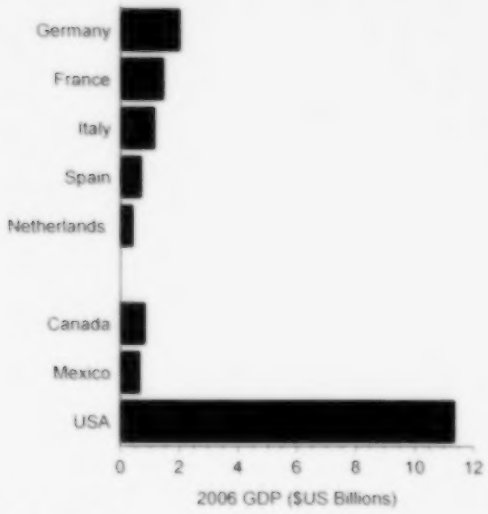
Proponents of the idea suggest that the benefits of a common currency include the elimination of the uncertainty surrounding exchange rate fluctuations, the consequent lowering of inflation rates as a result of the reduced risk and a reduction in transaction costs for trade between NAFTA partners. They point to the European Union and the euro as a successful example and suggest that Canada could reap some of the same benefits.

However, there is one very large flaw in this line of argument. The composition of the European Union is substantially different from that of the North American Free Trade Agreement partners. In the EU, Germany has the largest economy, but Germany's GDP is not even larger than the sum of the next two largest economies, France and Italy (the United Kingdom is actually the second largest economy in the EU, but it has not adopted the euro as its currency). In contrast,

[4] Figure quoted in "Loon's strength no match for border hassles," Vancouver Province, June 28, 2007.

the United States dominates the economy of the NAFTA region, with a GDP 7.5 times that of the other two members combined.

No one country dominates the EU in terms of economic output, whereas the United States economy dwarves that of Canada and Mexico



Source: OECD

If the United States were to agree to a common currency with Canada and Mexico, and this is a big if, it is fairly clear that monetary policy would be decided by the US with very little say from either of the other two interested parties. This would severely limit Canada's ability to deal with inflation and other economic fluctuations. Canada's economy differs significantly from that of the United States with a greater dependence on resource sectors, which means Canada tends to do better when commodity prices are high, while the opposite is the case in the United States. The current problem faced by the Bank of Canada of boom times in one region, such as oil-rich Alberta, at the same time another is flagging, such as the manufacturing sector in central Canada, will be multiplied when the additional economies of each of the American states and Mexico need to be considered. It is almost certain that the United States will look after their own interests first with little consideration for Canada and Mexico.

When the Canadian dollar was mired in the mid-sixty cent range just a few short years ago, the talk of a monetary union with the United States was a popular topic and now that the loonie is flirting with the possibility of reaching par with its American counterpart, it is once again a popular subject of discussion. This alone should make one question the wisdom of such a policy. If Canada and the United States had agreed to a common currency when the exchange rate was at its low point, the loonie would have been anchored at around 62 cents US. Canada would be inextricably tied to a weaker US economy with few fiscal options left to control inflation or economic growth.

Of course, all this presupposes that the United States would even be interested in having a common currency. A study from the University of California suggests that there is little likelihood of this and quotes a 2002 survey of public opinion in the US, taken from a C.D. Howe Institute report, that found that 84% of those surveyed did not want a common currency for North America.[5]

Given this, if Canada wanted to have a common currency with the United States, it would likely have to adopt the US dollar. Bank of Canada governer David Dodge may believe that a currency union is possible, but he certainly expressed his doubts a few years ago and was quite adamant with respect to the folly of the idea of pegging the loonie to the greenback: "Given the structure of our economy, for now and for

[5] Cohen, Benjamin J. (2004) North American Monetary Union: A United States Perspective, University of California, p. 10

as far into the future as I can see, the advantages of a flexible exchange rate, anchored by a domestic inflation target, clearly outweigh the benefits of a currency union. And they will certainly always outweigh those of a peg." [emphasis added][6] If Canada were to adopt the US dollar, it would have no say at all with regard to monetary policy. In effect, it would put its fate in the hands of the US Federal Reserve.

What happens next?

So where does that leave exporters and other Canadian businesses vulnerable to exchange rate fluctuations? The answer to this depends largely on the type of business and the situation it is in. For example, for manufacturers that have trouble competing because they are not as productive as their competitors, investment in capital and other productivity-improving measures could be the answer. For those that are already operating at peak efficiency, but are too small to contend with larger American competitors, perhaps a paradigm shift to serving niche markets could be the answer. For tourism operators, martketing campaigns to promote tourism in Canada to Canadians or toward another market other than the United States might help. For BC's film and television sector, perhaps it is time to concentrate on domestic productions rather than trying to keep up with the generous incentives offered by other provinces, states and countries around the world that are trying to capture the Hollywood market. For those that are crying "the sky is falling," they should remember that the dollar was once valued higher than the US dollar and Canadian companies managed to keep afloat.

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[6] As quoted in: "No Common U.S.-Canadian currency: Dodge," CBC News, June 28, 2001. Retrieved June 21, 2007 from http://www.cbc.ca

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fax transmission information service from BC Stats

Email transmission information service from BC Stats

also on the Internet at www.bcstats.gov.bc.ca

BC at a glance . . .

POPULATION (thousands)	Apr 1/07	% change on one year ago
BC	4,352.8	1.3
Canada	32,852.8	1.0
GDP and INCOME (Released Apr 25)		
(BC - at market prices)	2006	% change on one year ago
Gross Domestic Product (GDP) *($ millions)*	179,701	6.4
GDP *($ 1997 millions)*	150,741	3.6
GDP *($ 1997 per Capita)*	34,971	2.3
Personal Disposable Income *($ 1997 per Capita)*	21,984	4.8
TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Jun	3,496	-0.3
Merchandise Exports - Jun	2,653	-3.8
Retail Sales - Jun	4,729	0.0
CONSUMER PRICE INDEX	% change on one year ago	12-month avg % change
(all items - Jul 2007)		
BC	1.6	1.7
Vancouver	2.0	2.2
Victoria	0.8	1.3
Canada	2.2	1.8
LABOUR FORCE (thousands)		% change on
(seasonally adjusted)	Jul '07	prev. month
Labour Force - BC	2,355	-0.4
Employed - BC	2,258	-0.1
Unemployed - BC	98	-6.9
		Jun '07
Unemployment Rate - BC *(percent)*	4.1	4.4
Unemployment Rate - Canada *(percent)*	6.0	6.1
INTEREST RATES (percent)	Aug 22/07	Aug 23/06
Prime Business Rate	6.25	6.00
Conventional Mortgages - 1 year	7.05	6.40
- 5 year	7.24	6.85
US/CANADA EXCHANGE RATE	Aug 22/07	Aug 23/06
(avg. noon spot rate) Cdn $	1.0621	1.1101
US $ *(reciprocal of the closing rate)*	0.9402	0.8986
AVERAGE WEEKLY WAGE RATE		% change on
(industrial aggregate - dollars)	Jul '07	one year ago
BC	744.19	3.2
Canada	754.33	3.4

SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

For latest Weekly Financial Statistics see www.bankofcanada.ca

Environmental Statistics Portal

A new Environmental Statistics page with links to a variety of data and reports related to different environmental issues has been added to the site. The first issue of a new BC Stats periodical, "Environmental Statistics," can be accessed from this page. It is a reprint of an "Exports" article, with some additional data tables.

www.bcstats.gov.bc.ca/data/env/env_stat.asp

Regional Employment Projections

BC Stats, with the financial assistance of the Ministry of Advanced Education, developed the Regional Employment Projection Model (REPM), designed to project industrial and occupational employment in regions of the Province of British Columbia. The model projects employment at the Regional District level and then aggregates back up to the College Region for reporting purposes.

www.bcstats.gov.bc.ca/data/lss/repm.asp

Socio-Economic Profiles & Indices

The 2006 edition of these widely-monitored reports provide the most complete and up-to-date basis for measuring and comparing the social and economic dimensions of regions in the province. Released April 4.

www.bcstats.gov.bc.ca/data/sep/index.asp

Released this week by BC Stats

- Consumer Price Index, July 2007

Next week

- Business Indicators, August 2007
- Current Statistics, August 2007

BC Stats, Ministry of Labour and Citizens' Services, Box 9410 Stn Prov Govt, Victoria, B.C. V8W 9V1
Tel: (250) 387-0327 Fax: (250) 387-0329 Web: www.bcstats.gov.bc.ca E-mail: BC.Stats@gov.bc.ca